

**School of Economics and Management – University of Porto**

***ONE-BUSINESS MODEL & Tax Competitiveness  
HB Fuller Business Case***

By

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**Internship Report**

**Master Degree in Finance and Taxation**

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*“Never let it rest. Till your good is better and your better is best.”*

*St. Jerome*

## Biographic Note

Patrícia de Oliveira Quental Dias, born on October 6, 1993, in Santarém.

Being adventurous is as she knows herself, and since an early age with a keen eye for Business, Management and Tax, she travelled all over Portugal, from top to bottom, all her life.

From a small, but very pleasant town near by the Center of Portugal, in Ribatejo, by 2011 she had moved to Évora, in the South, to take a Bachelor's degree in Economics, at the University of Évora.

Afterwards, aiming for a bigger challenge, some years later, she moved again.

In 2014, she started a new journey with the beginning of her Master's degree in Finance and Taxation, at School of Economics and Management, at the University of Porto – in the North of Portugal.

Since then, aiming for new goals allied to international experience, at the same time, she has been putting in practice the lessons learned so far.

In 2015, she performed a Finance Professional Internship, at *National Minority Business Council*, in New York City.

Furthermore, either in 2015 collaborated with the *HB Fuller Group*, for six months, as an EIMEA Tax intern, at its Financial Shared – Services, set up in Mindelo – Porto, Portugal.

The present Final Curricular Report represents the finalization of her Master's degree.

It has been a long journey so far, that is coming to an end, it is time to move on, once again.

Wishing now to change the page for a new beginning!

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## Abstract

In the Business Market, allied to the Globalization phenomenon, just the efficient companies can survive. For that purpose, it is necessary to reach the operational excellence, through the optimization of efficiency.

HB Fuller is not an exemption, and once it has the mission of being the best in Industrial Adhesives worldwide, it is always looking for the implementation improvement processes, toward the identifying of the best practices.

In this scope, the final internship 'report aims to present the support work performed, during six months, in EIMEA Tax Department, at HB Fuller Isar-Rakoll Portugal, in Mindelo.

HB Fuller acquired a fierce competitor, and it is now in the phase of integrate the different Business Models. The focus of the work remains essentially in the Pós-M&A period. This Acquisition, at first, produced several operational synergies, and then, to a high level of Tax Competitiveness by Group.

The purpose of this report is the ONE-Business Model (the combination of advantages of Principal Structure and harmonization), as one of the main drivers of value creation for the HB Fuller Group, mainly at Corporate Income Tax Competitiveness' level. Proven by a Prevision, based on operational and tax assumptions, when both French and Italian entities acquired integrate the HB Fuller Principal Structure Business Model, in the near future.

Reinforcing that, the main point will be that the remuneration of the different activities will be in accordance with the new risk and functions. That being the HB Fuller Tax Competitiveness' key-point.

**Key Words:** HB Fuller Group, M&A, Business Models Integration, Tax Improvement Processes, Corporate Income Tax Competitiveness, Tax Efficiency.

## Resumo

No Mundo dos Negócios, aliado ao fenómeno da Globalização, apenas as empresas mais eficientes sobrevivem. Para tal, é necessário alcançar a excelência operacional, através da otimização da eficiência.

O Grupo HB Fuller não é exceção, e uma vez que tem a missão de ser a melhor Industria de Adesivos à escala global, procura implementar constantemente processos de melhoria contínua, através da identificação das melhores práticas.

Neste âmbito, o presente relatório final pretende apresentar o trabalho de suporte desempenhado, pelo estagiário, durante seis meses, no departamento de Fiscalidade EIMEA, da HB Fuller Isar-Rakoll Portugal, em Mindelo.

O Grupo HB Fuller adquiriu um grande concorrente e encontra-se atualmente a integrar diferentes Modelos de Negócio. O focus do trabalho exposto reside essencialmente no período pós-Aquisição. Esta Aquisição, inicialmente possibilitou inúmeras sinergias operacionais, e posteriormente, o benefício de uma maior Competitividade Fiscal pelo Grupo.

Propõem-se, neste relatório, ONE- Business Model (a combinação das vantagens do Principal modelo de negócio e Harmonização), como um dos maiores determinantes da criação de valor para o Grupo HB Fuller, principalmente ao nível do Imposto sobre o Rendimento das Pessoas Coletivas (CIRC). Demonstrado através de uma previsão, baseada em premissas operacionais e fiscais, aquando integrar as empresas Francesa e Italiana adquiridas, no seu modelo de negócio Principal, no futuro próximo.

Destacando - se o facto da remuneração das atividades, ser feita de acordo com os novos riscos e funções, sendo este, o fator-chave da maior Competitividade Fiscal do Grupo HB Fuller.

**Palavras - chaves:** HB Fuller Group, Fusões e Aquisições, Integração de Modelos de Negócio, Processos de Melhoria Fiscal, Competitividade Fiscal (CIRC), Eficiência Fiscal.

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## List of Abbreviation

<b>BM</b>	Business Models
<b>CIT</b>	Corporate Income Tax
<b>Cco</b>	Company code
<b>FDI</b>	Foreign Direct Investment
<b>FG</b>	Finished Goods
<b>ERP</b>	Enterprise Resource Planning
<b>ESS</b>	European Shared-Services
<b>ETR</b>	Effective Tax Rate
<b>EU</b>	European Union
<b>IA</b>	Industrial Adhesives entities
<b>I/C</b>	Intercompany
<b>LRD</b>	Limited Risk Distributor
<b>M&amp;A</b>	Mergers and Acquisitions
<b>P&amp;L</b>	Profit and Losses
<b>PE</b>	Permanent Establishment
<b>PS</b>	Principal Structure
<b>R&amp;D</b>	Research and Development
<b>RM</b>	Raw Materials
<b>SAP ERP</b>	SAP Enterprise Resource Planning software
<b>TP</b>	Transfer Pricing
<b>VAT</b>	Value - Added Tax
<b>3P</b>	Three – Party

# 1-Introduction

Nowadays, we assist to a global race for competitiveness, allied to the Globalization phenomenon. Into the Business Market, allied to fierce competitor, just the most efficient companies can survive.

Just being a competitive company, it is possible to be successful. Knowing the best managing boards, that the competitiveness is deeply allied with strategy.

The HB Fuller Group is not exception, so with the mission of being the Best in Industrial Adhesives production worldwide work day-by-day to achieve the Excellence standard, toward the so wished Operational Efficiency.

In this scope, this final internship 'report aims to present the support work performed, during six months, in EIMEA Tax Department, at HB Fuller Isar-Rakoll Portugal, in Mindelo.

The focus of this work remains essentially in a forecast of the Corporate Income Tax saving that HB Fuller Group will get when the acquired Business Model be integrated on the historical HB Fuller Business Model – Principal Structure.

In this context, the present report is formed by four main parts:

- 1-**In the first part, the introduction and contribution of the present report;
- 2-**In the second part will be shortly described the host entity, mixed with literature-review;
- 3-**In the third part, are presented some supported projects, mixed with few related literature-review;
- 4-**Finally, in the fourth part, is exposed the process used to demonstrate the impacts of part of the simplification of the Corporate structure of the Group in Europe - PROJECT ONE, at a Corporate Income Tax saving level, and then it is enforcement.

Being possible, due to the acquired and learned experience in real context, after reflecting on financial procedures, identifying best practices and proposing process improvement.

Highlighting, the vital role that the different Taxes Rates performed in different countries have in the determination of Foreign Direct Investment, leading to an efficiency and competitiveness high-level.

## **Contribution**

Although, efforts has been done in order to co-procedure, and get through this HB Fuller current transformation phase, it still remain a lot of risks and uncertainty, which does not allow the restructuring process moves at a faster pace.

In order to be much closer to the so wished harmonization and core business simplification, the integration of the Business Models are a priority! Emphasizing the Business Model's role in the present report.

As a Tax EIMEA intern and taking advantage of the fact of the HB Fuller Principal Structure Business Model be based on operational advantages, plus enable a bigger tax optimization, the focus will remain there. Helping *Forbo's* (hereinafter "Industrial Adhesives") Acquisition integrate the Principal Structure, focusing on its tax advantages. Industrial Adhesives Acquisition will enlarge the operating advantages and also tax-efficient business.

With respect to the aforementioned, the contribution will remain on the Corporate Income Tax Competitiveness' prevision that HB Fuller Group will get when integrate its Business Models. It will be proved toward a French and Italian entities sample, when integrated in ONE- Business Model.

## **2-HB Fuller Group**

### **2.1. History of the HBF Group**

In this first part of the Report it is intended to shortly describe the host entity, *HB Fuller Company*. For that purpose, firstly will be presented some History of the *HB Fuller Company* and its growth strategy through the years. Then, will be introduced the EIMEA Region and a short context of its role in the present report.

#### **HB Fuller Global**

*HB Fuller Company* is a major American Adhesives manufacturing company supplying industrial adhesives worldwide that aspires to be formulator, manufacturer and marketer of technology products' leader, at a global scale. Which stock is traded on the New York Stock Exchange (NYSE).

Acting in the Chemical Sector through nearly 53 Companies, in 20 Countries of 4 different Continents<sup>1</sup>;

Through its four main products (Polymers, Holt Melts, White Glues and Solvents), HB Fuller serves a wide range of the following Markets, such as Packaging, Hygiene, Building and Construction, General Assembly, Automotive and so on.

#### **HB Fuller Growth Strategic**

The HB Fuller growth strategy is focused on Sustainability, (See Annex 1 – HB Fuller Financial Highlights 2015).

For that purpose, it is based on a customer centric strategy, committing with differentiation and innovation to deliver value-added, products and services.

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<sup>1</sup> This figure involves some dormant entities, supporting entities (such as Holdings and Branches)

In this context, set up the following key strategic goals: (Fuller, 2015)

- Realize manufacturing cost savings;
- Double the size of our new engineering adhesives segment;
- Drive higher growth in our more profitable markets;
- Expand into developing and emerging geographies;
- Leverage infrastructure investments in Europe and SAP; and
- Generate more cash for future investments. A key part of our growth plan is to further expand into new markets, including a new operating segment: engineering adhesives

Knowing beforehand that its principal competitive factors in the sale of adhesives and other specialty chemicals are product performance, supply assurance, technical service, quality, the raw materials flotation price and customer service.

Following a short outlook about what has been the HB Fuller History.

### **HB Fuller at a glance – Short Chronology**

For more than 125 years, H.B. Fuller has been a leading global industrial adhesives manufacturer.

A US company was settled up **at 1887**, when Harvey Fuller moves to St. Paul, manufactures flour and water paste. By that time probably did not know the huge dimension that he's business would have nowadays.

With the time goes by, the Organization has performed several Acquisitions, as well as tried to optimize its structure at all expertise areas, investing in a Global Growth strategy.

Reinforcing that, all over the years HB Fuller has expanding the products, as well as implementing new formulas, assisting to an increasing of revenue.

Highlight that allied to a strong mindset to the business, in **1959** HB Fuller began its international expansion in Canada and the Bahamas; Further in **1961** spread to EIMEA region, then in **1982** HB Fuller acquires Isar-Rakoll Chemie; expands European presence, follow-up in **1994** HB Fuller reaches \$1.1 billion worldwide sales, being then rewarded in **2005 & 2006** by Forbes magazine named HB Fuller to its Platinum 400 list of best managed big companies in America, and one of the top 10 companies in the chemical industry.

Later in **2009** HB Fuller celebrates the grand opening of its new Asia Pacific Regional Technology Center in Shanghai, China, one year later an acquisition of the Indian facility.

In **2012** HB Fuller acquires Forbo's global industrial adhesives business and Engent, and divests its Central American Paints business. The company also opens its manufacturing facility in Pune, India. Since there, the company has performed several other acquisitions, mainly in the last few years ProSpec Construction Products, TONSAN Adhesive, Inc

By the most recent times to the Emergent Markets either, being the most recent acquisition in **2015** when HB Fuller Acquires Continental Products Ltd.at Kenya.<sup>2</sup>

## **HB Fuller EIMEA**

### **HB Fuller Expands European Business Transformation Plans**

In 2012, HB Fuller announced to expand European Business, toward a European Business Transformation, in which the integration of *Forbo's* acquired business supports take a relevant regional profitable growth strategy role. Aiming to improve the EBITDA margin to 15 percent by the year 2015.

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<sup>2</sup> The HB Fuller business is currently reported in four operating segments: Americas Adhesives, EIMEA (Europe, India, Middle East and Africa), Asia Pacific and Construction Products.

Regarding to the EIMEA region it is vital to highlight the following three main features mentioned in (Fuller, 2012.):

### **1-EIMEA Transformation process.**

That means a 120Million Investment by HB Fuller Corporate, Production essentially;

#### *HB Fuller Expands European Business Transformation Plans*

HB Fuller also affirmed the company's intention to make capital investments in the EIMEA segment of approximately \$90 million over the next three years. The investments will enable consolidation, facilitate increased production capacity, support new technologies in the company's European operations, and **centralize finance shared services and customer service functions** in Mindelo, Portugal, as previously announced. These actions will enable the operating segment to modernize and enhance plant processes and use resources and technology more efficiently.

### **2-Severall Acquisitions that have been performed on EIMEA region.**

Highlighting the *Forbo's* Acquisition, once it will have a relevant role in the present Final Report;

Following the aforementioned M&A the EIMEA business is run in two main Business Models. Therefore, from this M&A the Legal Structure is sometimes duplicated in some countries.

**3-The HB Fuller Share Serviced & Customer Service**, set up in Portugal (Mindelo), which I will mentioned detailed on the following 2,4 chapter.

Following the current HB Fuller EIMEA Legal Structure



### **Figure 1 - HB Fuller EIMEA Legal Structure**

**Source:** HB Fuller data, (2014/2015)

## 2.2. M&A

### 2012 Forbo's Competitor Acquisition

With an outlook in the last years, we could assist to a lot of changes, mainly in structure that HB Fuller has been passing through. With a keen eye to the business, and based on a Growth Strategy, from among smaller acquisitions, there was a bigger one in 2012, ***Forbo's fierce competitor Acquisition.***

As previously mentioned, in 2012 was announced the acquisition of the global industrial adhesives business of Forbo's Group. According to (Fuller, 2012.) the business acquired represents about 80 percent (by revenue) of the Forbo Bonding Systems division of Forbo Group. It generated approximately \$580 million in revenue for the fiscal year ending Dec. 31, 2011, operates 17 manufacturing facilities in 10 countries, and employs more than 1,100 people globally. EBITDA for the business for the 2011 fiscal year was approximately \$35 million.

**Note:** "Acquisition of Industrial Adhesives business from *Forbo's* Group" from now on designated as "Industrial Adhesives Business".

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"The acquisition strengthens H.B. Fuller and positions us to capitalize on growth opportunities in key geographies and markets, such as packaging and durable assembly. We will leverage our combined assets – people, products, processes, systems and knowledge – to offer customers a superior choice in adhesives"

u

**Jim Owens, H.B. Fuller President & CEO**

g

Through this strategy of Horizontal integration, combining business involved in similar activities, HB Fuller get a market extension.

Enable the operating segment to modernize and enhance plant processes and use resources and technology more efficiently.

Allowing to start running to expertise in new markets (e.g. Automotive, Electronics), new technologies (e.g. New Energy Photovoltaic/Solar Wind Battery), new customers, and setting up new Factories in Spain, Greece, Germany, UK, Finland, Italy and so on.

Emphasizing that this HB Fuller Company's aggressive growth strategy, through several acquisitions has been done and easily integrated in the past, (e.g., *Adalis business*). However, Forbo's acquisition comes up as a bigger challenge, the now-combined EIMEA business.

In fact, although recent M&A activities from Industrial Adhesives Business acquisition have been performed, and at a first sight it seems to be a similar restructuration as others, due to similar basic features met, such as the number of employees, the type of core business and either its similar global market share.

However, as time goes by, HB Fuller still not overcome severe limitations, not finding common ground for an immediate adaptation of acquired business into the existing one, as it is usually done.

Highlighting that plans for investment and restructuring done previously determined that there are sizable opportunities to eliminate duplication in manufacturing and redundant services in the combined businesses as expresses. (Fuller, 2012, p. 2/2.)

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*“Therefore, if it is possible, the important is to stream the operations and invest where it makes sense, and thus will make the region more efficient and able to provide even better to the customers.”*

**Jim Owens, HB Fuller President & CEO**

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Reinforcing, once again that for this purpose, the Business Models have a vital role on the Report.

In this context and before introduce the HB Fuller Business Models, it is important to give some previously insight regard the main challenges after an M&A operations, **once is that the reason why currently HB Fuller Group runs currently a mixed business model structure**; hence thus highlight few basis concepts for the better understanding of the report.

In this sense, beginning for the main barriers to an easy Harmonization and integration after an M&A operation, and the main challenges for the HB Fuller Group, and its backup plan to overcome them: PROJECT-ONE.

### **HB Fuller Pós-M&A Limitations & Action Plans**

(Sudarsanam, 2010, p. 774) defends Merger integration as a change process, and needs to be managed by drawing upon the principles and practice of change management. Defend the alignment of Strategy, organizational structure and organizational culture during the integration process to deliver sustainable value creation.

In this context, briefly introducing some of the most common barriers to takeover in different countries, following the main challenges felt by HB Fuller Group in this Pós-M&A Period, which do not allows to an immediate integration and lead HB Fuller Group to the current Multi-Business Models Structure.

Summing up some of the main integration challenges felt Pos-M&A period.

#### ***Problems in Integration***

- *Sharing and Transferring Resources and Capabilities, many of them need to be leveraged , have first to be shared and internalized by both forms.;*
  - *Integrating innovation capabilities, sometimes are needed to create new products or markets, or to leverage them to stronger competitive advantage in existing markets;*
  - *Integrating Brands, one common cultural and organizational message*
- Information systems integration.* (Sudarsanam, 2010, p. 716).

For a better support on the topic, (See Annex 2 - Some of the most common barriers to takeovers in different countries).

Which are the Pós-M&A Integration main challenges met by HB Fuller either.

In this context, for HB Fuller Group, due to the sharing and transfer of resources and capabilities appear several Operational Limitations, mainly in its Core Business Legal Structure, due to the Duplication of Plants/Sites/Warehouses and in the transfer of employees and customers master data files. Plus, the so different business models that are currently and simultaneously running the Business, since the 2012 Industrial Adhesives Acquisition. That directly produces highly complex I/C transactions and thus a sophisticated supply-chain.

Plus that, also different ERP's and the different Business Models, inside the same company were brought to the HB Fuller Group.

Thereby it is easier to make a mistake and produce wrong information that could be reflected in the Financial Statements and create a direct negative impact in the image and credibility of the HB. Group, either internally or externally, costly-decisions produced a negative result on the HB Fuller Group's operating income and contributions margins or/ and culminate into a power quality service provided to the end-customer.

Therefore, in order to Integrate and Harmonize HB Fuller lifecycle some actions are needed:

**Table 1 - Main HB Fuller Pós-M&A Limitations and respective Action plan needed**

Main HB Fuller Pós-M&A Limitations	Action Plan needed
<b>Operational Limitations</b>	Restructure HB Fuller Legal Structure
<b>IT Limitations/ diferente ERP</b>	Harmonization ERP's. The new SAP big change will be felt at all levels, such as at the Accounting level, functional, order management, stocks etc.
<b>Different Business Models</b>	ONE BUSINESS MODEL – that will be the focus and its tax level impact.

**Source:** Own elaboration, based on HB Fuller data (2014/2015)

In this sense, to put in practice the actions plan needed to overcome the HB Fuller Pós-M&A Limitation aforementioned is the big challenge, (Cause-Effect).

Reinforcing that although progresses and risk mitigations have been felt, is still not enough.

The current bigger action plans challenges for the EIMEA region are:

**1-Process Improvement** – in which HB Fuller is currently at Improvement and Validation phase, it is to say, before the Stabilization phase and after the Activities handover phase;

**2-ONE BUSINESS MODEL**

**3-Tax perspectives**

It is important to refer that all the EIMEA challenges aforementioned are all inter-related and interdependent. For the Fuller process improvement purpose, the integration of the Business models is vital and ensures a bigger Tax Competitiveness to the Group, as is intended to be proved with this Final Report.

In this sense, it is relevant highlight the real point of **EIMEA Business integration´s issue: EIMEA Business costs integration.**

Following some of the main EIMEA business costs integration, underling to the whole Integration process, such as

- Acquisition and transformation related costs;
- Workforce reduction costs;
- Facility exit costs,

And other eventually related costs.

Due to these enormous integration costs aforementioned, HB Fuller has been facing some **serious challenges to improve their operating income, its contribution margins.**

In order to accelerate margin´s improvement and drive growth, the HB Fuller focus has been its PROJECT-ONE.

In this context, was created by HB Fuller the multi-year project: **PROJECT-ONE**.

### **HB Fuller PROJET-ONE**

- Aims to install SAP application software as a global information technology platform;
- Aims to increase the Service Quality Provided to Customers, hence thus, its growth.

For that purpose, HB Fuller knows that has firstly to give response to its lower operating income and operating margins. To accomplish this task, integrate definitely its Business Models, is a key factor of the change needed.

In other words, the uncertainty created by the integration process is always dependent on the type of Group 'Leadership (HB Fuller - USA Corporate) and its willingness to take risks, once take risks are managed in the context of its strategy, either with preferences underling.

This is consistent with the fact that all Companies 'activities face Risks; therefore Business Models have a relevant role in identifying risks. And then help on mitigate it toward accurately Risk Management analysis, (See Annex 3 – Strategic Development and Oversight and Annex 4 - Main reasons for Risk Management be important for firms).

Although challenges are inter-related, the different Business Model's challenge is the focus, it is to say, ONE-Business Model improvement and harmonization is the focus. Hence thus, its positive tax impact produced on HB Fuller's core business.

In this context, trying to provide a deeper understanding of how each one works, and its impact's produced follow up a detailed analysis in the next chapters.

### **2.2.1. Business Models**

In this point, is important to give insight on the **Functional Analysis** that will have extreme importance in the present Report. And therefore to mention the Functional Analysis's impact in the effective and efficient running of a Business Model.

#### **2.2.1.1. Business models and Functional Analysis Relation**

“A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value” Teece, 2010 (Gambardella & Mcghan) (Zott, Amit, & Massa, 2010, p. 6)

“Business model choices define the architecture of the business, and expansion paths develop from there on out” (J. Teece, 2010, p. 181.)

**“There are all kinds of business reasons for setting up such centralized models. The challenge from an implementation perspective is indirect tax.”** (Cornelisse, 2014)

For tax purposes, profit allocation is driven by Functions, Assets and Risks. Therefore, it is believed that the right model must be considered that three dimensions and therefore these three functions can be centralized, the more benefit can be realized. (Medeiros, 2015).

**Figure 2 – How Functions, Assets and Risks affect the activities remuneration (implied the tax level)**



## The Functional Analysis

“The functional analysis is an overview of the key activities performed by the entity, the assets used and risks borne. It provides a perspective on the role of the entity in the total value chain of the group. Each business is unique in terms of the combination of functions, assets and risks.” (Devonshire-Ellis, Scott, & Woollard, 2011, p. 10), (See Annex 5 - The main entities ´Functions, Assets & Risks Overview).

By Functional Analysis the key relations to keep in mind are the following:

- Risks & Assets have a direct relation with the Functions;
- Direct Risks-Return tradeoff;
- More Risk means bigger profit centralization;
- More Functions ´s centralization means more operational, legal and tax benefit.

Furthermore, it is important to either consider **Geography Dimension** to the Risks/Assets & Functions. Once it determines what countries or regions will have implications in terms of tax risk. Therefore these are Key Points to the present Reports contributions.

In this sense, the ONE-BUSINESS model implementation will produce several changes at the aforementioned dimensions, leading to operating, legal and tax impacts. Are these main impacts, mainly at the tax level that will be detailed analyzed further in Chapter 4.

HB Fuller Group operates in Europe through **two different business models**:

### 2.2.1.2. HB Fuller Group Business Models

#### A-Principal Structure

In this chapter it will be given an insight regarding to the Historical Business Model of HB Fuller in core Europe (before the relevant acquisition).

HB Fuller Group operates in core Europe using a **Principal Structure**, of which the HB Fuller Europe GmbH<sup>3</sup> is the Principal of a commissionaire structure.

HB Fuller Europe acquires raw materials<sup>4</sup> to the Vendors. These raw materials are dispatched to several points in Europe, where a local manufacturing company (**Tollers**), transforms these raw materials into finished goods.

HB Fuller Europe sells goods to end customers through companies who act as undisclosed agents (“commissionaires”);

The following example aims to give a better understanding of the topic:

#### Figure 3 – Principal Structure Operating

**Source:** HB Fuller data, (2014/2015)

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<sup>3</sup> Is VAT-registered entity in Switzerland and in other countries like Portugal, the UK, Austria, Germany, Italy, among others, which allows it to perform VAT transactions in/from all these countries.

<sup>4</sup> The HB Fuller bigger expense, associated to the high level raw materials price flotation risk, which could produce a severe impact on HB Fuller’s core business.

Some of the main HB Fuller raw materials are e.g. resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers (Fuller, 2015).

## Typical Principal Structure Transaction: Relationship between parties

According to (Medeiros, 2015 & Cornelisse, 2013)

- The Principal, in tax efficient country buys raw materials from third parties and sells finished goods to its distributors (calls on the services of an intermediary);
  - **The Tollers Manufacturer are rewarded for their services with benchmarked cost plus return;**
  - **The Commissionaires are rewarded with a sales based return;**
- Each one has different activities and functions, but economically are all “Limited Risk”, with similar level of reward.**

Several **Commissionaires** in Europe sell goods as an undisclosed agent on behalf of the Principal within a defined territory<sup>5</sup>

### Transactions under the Principal Stricture

In each Transaction, there are always two flows:

- 1-The Goods Flow;
- 2-The Invoice Flow;

### The Goods Flow

The goods are sold from warehouses located in several countries. Being directly dispatched from these warehouses to the final customer.

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<sup>5</sup> According to (Parada, 2013, p.63) the common law (undisclosed agent) concept and the civil law of (commissionaire) concept are not equal and their interpretation in light of the article 5 of the OECD model treaty.

Defend that the classification of agencies is directly related **to the amount of authority given by the principal.**

Common law countries generally treat the undisclosed agent as binding the principal, whereas in civil law countries. Therefore, a commissionnaire arrangement almost always will be deemed to give rise to a PE in common law countries **(the question whether the principal has a taxable presence.)**

## The Invoice Flow

Under the law of contracts, there are two separate contractual relationships:

- One between the principal and the commissionaire (that is, the commissionaire agreement); and
- Another between the commissionaire and the third-party customer.

Following a Matrix with few examples of HB Fuller' Principal Structure entities.

**Table 2 – Examples of HB Fuller Principal Structure entities**

Entities	Country	Business Model	ERP
H.B. Fuller Isar-Rakoll, S.A.	PT	Principal Structure	PRISM
H.B. Fuller Sverige AB	SE	Principal Structure	PRISM
H.B. Fuller Italia s.r.l.	IT	Principal Structure	PRISM
H.B. Fuller France SAS	FR	Principal Structure	PRISM
H.B. Fuller Benelux B.V.	NL	Principal Structure	PRISM
H.B. Fuller Espana S.A.	ES	Principal Structure	PRISM

Source: Own elaboration, based on HB Fuller data (2014/2015)

**Highlighting the huge relevance of the Tollers and Comissionaires' rewards to the contribution of this report (related with TP Policy).**

## **B-Industrial Adhesives Business Model**

On the other hand, the business acquired run a different business model, explained below.

HB Fuller Industrial Adhesives entities sell directly the goods to their customers. It is to say that the goods are dispatched directly from the storage warehouse to the final customer (direct delivery).

*Therefore, in contrast by what happen on the Principal Structure, here, the same entity produces the goods and sells to the final Customer.<sup>6</sup>*

In this context, we can find a slight comparison between the Full-Fledged entities and the Industrial Adhesives entities.

“The fully fledged manufacturer is responsible for sourcing materials, undertaking production and potentially selling to third parties on its own risk as well as to related party distributors. It bears a range of risks related to pricing and markets and owns intangibles related to the manufacturing process, products and potentially brands. Such entities are classified as profit centers.” (Devonshire-Ellis, Scott, & Woollard, 2011, p. 13)

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<sup>6</sup> When the goods are physically moved from Industrial Adhesives to Three-Party warehouse, Industrial Adhesives entity must sell to HB Fuller Europe VAT-registration that receive the goods.

Industrial Adhesives entity should issue PO against the relevant Commissionaire according with from where the goods will be dispatched.

Trying to give a deeper insight of the scene follows up a brief comparison:

**Table 3 - Comparison-between-Commissionaire and Full-Fledged D**

Commissionaire	Full Fledged Distributor
No Inventory ownership	Inventory ownership
Invoice in name of commissionaire	Invoice in name of FFD
Low Risks	Full Risks
No inventory AR on Balance Sheet	Full Balance Sheet
P&L shows commission	Full P&L

**r**

For a deeper understanding, (See Annex 6 - The main entities Functions, Assets & Risks Overview)

Based on the previous data, and seems that the Industrial Adhesives entities and the Full Fledged one are quite similar, once are entities that live by itself.

Therefore, whereas what happen in the classical Principal Structure Business Model, where exit always a Commissionaire and Toller separated transactions, in the Full Fledged/ IA entities, both manufacturing and distribution are done by just one entity.<sup>7</sup>

Following a Matrix with few examples of HB Fuller Fully Fledget entities.

**Table 4 - Examples of HB Fuller Industrial Adhesives entities**

Entities	Country	Business Model	ERP
H. B. Fuller Adhesives France SAS	FR	Full Fledget entity	SAP
H. B. Fuller Adhesives Spain S.L.	ES	Full Fledget entity	SAP
H. B. Fuller Adhesives Italia s.r.l.	IT	Full Fledget entity	SAP
H. B. Fuller Adhesives Deutschland GmbH, Germany	DE	Full Fledget entity	SAP
H. B. Fuller Adhesives Netherlands B.V.	NL	Full Fledget entity	SAP
H. B. Fuller Hungary Kft	HU	Full Fledget entity	SAP

Source: Own elaboration, based on HB Fuller data (2014/2015)

<sup>7</sup> The main difference between them is that the IP Licensing is not inside the Industrial Adhesives entities, but concentrated in the Group. What does not happen in Full Fledged entities.

Summing up the Pros&Cons of the two current HB Fuller Business Models below:

**Table 5 – The Pros&Cons of the two current HB Fuller Business Models**

Principal Structure advantages	Industrial Adhesives Legacy
1) Simplifies organizational structure	1) Complex supply-chains (We cannot perform some transactions)
2) Enhances speed of decision-making	2) Transactions VAT treatment difficult to assess
3) Aligns operational and legal structure	3) Consignment Stocks in countries where HBF has no Commissionaire
4) Enables focus on basic task of each entity	
5) Improves supply chain management	
6) Reduces overall business cost	
7) European coordination of sourcing	
<b>8) Tax optimized</b>	
9) Can more easily manage capacity across Europe due to one system (Emerging Markets may cause issues)	
10) Easy to transfer products between sites	
11) More transactions needed between countries without three party	
12) Less invoicing/transfer pricing between countries with three party	

**Source:** Own elaboration, based on HB Fuller data (2014/2015)

Based on the so distinct Structures that simultaneously are running the business, HB Fuller Group met a complexity of transactions between its different Business Models, mainly on the subject of Intercompany Transactions.

The main factors for that are related to the huge range of entities involved in a single supply-chain allied to the lack of an ERP system automatic correction that might create not only, but mainly VAT issues.

Following the HB Fuller Business Models, underling its I/C transactions and the Tax impacts produced.

### **HB Fuller I/C transactions and the Tax Impact**

Therefore, in the current HB Fuller Group Transformation phase the intercompany transactions are one of its major challenges.

Based on (I/C transaction HB Fuller Presentation) has been already identified some of the Intercompany transactions main issues, such as:

- Goods already received but not invoiced (both PRISM & SAP);
- Tracking/Reconciliation (extense list of Intercompany Purchase order to recon ciliate;
- Goods Receipt not done / trade invoice not issued to the Customer
- Transactions not compliant for VAT purposes (Incorrect VAT registrations used)

For a better understanding of the highly complexity in the Intercompany Transactions, due to running a business toward two different Business Models, follow an HB Fuller's illustration of a complex and disconnected transaction, where are highlighted the main Logistics, Tax and other related impacts.



## **Figure 4 – Impacts of a Complex and Disconnected HB Fuller’ Transaction Example.**

**E.g. Goods produced in Lun/Nien (PRISM) – e.g., *thermonex* – and transported to Surbourg.**

**Goods sold to several customers through Ind. Adh. Germany**

**Source:** HB Fuller data, (2014/2015)

Among the wide range of impacts produced by the HB Fuller’s complex I/C transactions, recalling the Report’s purpose of Tax Competitiveness’s prevision let’s now put the focus on the HB Fuller I/C Tax impact.

### **Tax Impact**

*“But do these taxes and tax planning opportunities get the attention they need, especially in light of increasingly complicated and globalized business models?” (Cornelisse, 2013)*

The percentage of business taxes taken by governments varies from country to country, however it time to highlighting the role of that the Indirect Taxes (VAT) has in the HB Fuller daily routine and the Corporate Income Tax that has the most relevant role on the present Report.

Will using a classic principal structure in the new entity help keep maximum profits in low tax jurisdictions?

**If the reason of a business model change is to optimize the company's effective tax rate (ETR), minimizing cash tax effects or cost reductions or realize efficiency overall, it is important that with regard to managing such change the indirect tax function is timely involved.** That already was mentioned.

### **Figure 5 – The new Tax world**

**Source:** adapted from (Cornelisse, 2013)

Different organizational forms can produce the same goods and services. Due to differences in tax treatment, conducting identical activities in different organizational forms can result in different after-tax rates of return. (S. schools, A. wolfson, M. Erickson, L. Maydew, & J. Shevlin, 1992, p. 118).

## **Indirect Tax - VAT**

- In classical Principal Structure, each movement of goods represents an independent supply-chain for VAT purpose.
- <sup>8</sup>**Intercompany Transactions are under I/C rules, which are based on HB Fuller Transfer Pricing and Mark-up policy (which will be detailed further);**

**Forward it's winning impact on the final report's results.**

For (Cornelisse, 2013), what really make it so complex in the classical Principal structure business model, as already aforementioned, a Commissionaire is never the legal owner of the goods. Therefore, from a VAT perspective, the commissionaire acts as though he was the owner and a fictitious supply takes place to and subsequently by the commissionaire.

Since according to civil law, the commissionaire does not have ownership, does not own any inventory. Hence, thus commissionaire has to issue invoices in his own name which can create problems if there are no bookings with respect to inventory.

## **Indirect Tax - Corporate Income Tax (CIT)**

(Palffy, 2015, p. 106) defines CIT as what "... is only paid by companies, (...) It is levied as a percentage of the company's total profit."

Emphasizing the relationship between the Income and Tax rate "at lower interest rates, there will be more planned investment is higher, that means that the level of the planned expenditure functions is higher, which leads to a higher level of income. (...) keeping all other factors constant, the interest rate determines the level of planned investment, which determines the height of the planned expenditure functions, which determines the Equilibrium level of output." (Mell & Walker, 2014, p. 241)

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<sup>8</sup> These transactions should be reported on: VAT return, Intrastat, European Sales List.

HB Fuller Group proposed to work on the integration of these Business Models, to pursue the mitigation of the impacts described above, always focusing on Harmonization.

In the next chapters will be produced several considerations, plus to, a numerical analysis and its tax impacts, with regard to the impacts, pros & cons of the business models integration

Highlighting the focus of this Report will remain **on the relevant role that the Principal Structure has on the Tax Competiveness of the Group, towards firstly at a Corporate Income Tax level.**

Therefore, follows up a short overview on the present and future of HB Fuller Business Models, it is to say the main Principal Business Model Transaction.

### 2.3. Principal Business Model transactions

With the focus on Principal Structure, in this section is intended to explain which parties are involved in transactions in EIMEA region, as well as the relationship among them.

Allowing that way, to give an overview regarding how it works and its impacts. Being key points for the Report's purpose.

For that purpose, are listed the following HB Fuller Intercompany transactions:

**Transaction One** – the providers of manufacturing services, will be collectively referred to as “Toller's”;

**Transaction Two** – the providers of Sales Services, will be collectively referred to as “Commissionaires”;

**Transaction Three** – the providers of Application Development Services, will be collectively referred to as “The Application Development Labs”.

**Transaction Four – Intercompany services.** These are under a Costs Recharge's Policy. This is to say that there exist a cost split among the several HB Fuller entities when needed.

For a better understanding of the topic, follow a synthesise of the type of transaction and respective intervenient.

**Table 6 - Schematically the type of transactions and the respective intervenient.**

Type of Transactions	Transactions Parties
1)Manufacturing Services	Tollers
2)Sales Services	Commisionaires
3)R&D Service	LAB
4)Intercompany Services	ESS (Shared Service), Customer Services

**Source:** Own elaboration, adapted from HB Fuller data (2014/2015)

Based on the scheme above, it is important to emphasize the main Commissionaire's outcomes as a sale's services provided. Once, it deeply impacts the Intercompany Transactions, and therefore the Business Models integration.

Following the main Commissionaire's outcome and its relation with HB Fuller functions.

### **Main Commissionaire's Outcomes**

- Greater mobility and flexibility to sales marketing;
- Easier and larger entry in simultaneous marketplaces;
- **Risks transfer;**
- Enable focusing in the product's production, likely to make the product more competitive, due to its price-satisfaction tradeoff.

Plus, highlight the relevant role of the R&D activities of the LAB as a HB Fuller key point of supply-chain's value creation.

### **HB Fuller Lab – R&D activities**

HB Fuller beforehand that new product development is a key research and development outcome, providing higher-value solutions to the customer's needs, has spent millions on R&D.

Highlighting the most recent innovation and differentiation product's strategy it was toward the recently acquired TONSAN adhesives business (2014)<sup>9</sup> aiming to ensure a competitive cost and leverage the available of raw materials.

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<sup>9</sup> This acquisition allowed HB Fuller, once again, to expand its operational segment to engineering adhesives. The engineering adhesives segment is composed of, combined with our existing automotive and electronics businesses. The engineering adhesives are widely used in a variety of industries, including automotive, construction machinery, rail transportation, new energy, electronics, appliances, medical etc.

Plus that, emphasizing that the pure R&D activities, at the LAB and Technical Services, allows the Company to benefit from a grant amount of R&D Tax Credits (SIFIDE)<sup>10</sup>;

Following will be detailed the Role & Responsibilities of HB Fuller Europe, Toller, Commissionaire & Lab (Portugal).

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<sup>10</sup> Significant tax incentives for company's investments in R&D

**Table 7 – Role & Responsibilities of HB Fuller Europe, Toller, Commissionaire and Lab**

HB Fuller Europe (Swiss Principal)	Toller	Commisionaire/ Limited Risk Distributor	LAB
<ul style="list-style-type: none"> <li>• Set quality requirements;</li> <li>• <b>Coordinate between commissiona &amp; tollers;</b></li> <li>• Make raw materials available to toll</li> <li>• Agree capital investments under the tolling agreement;</li> <li>• <b>Owns all Inventory;</b></li> <li>• <b>Define geographic territories;</b></li> <li>• <b>Set pricing, terms and conditions requirements;</b></li> <li>• <b>Request and fund product development</b></li> <li>• <b>Manage risk in the supply chain;</b></li> <li>• Agree capital investments under the selling agreement;</li> <li>• <b>.VAT-registered in all Commissionaire countries</b></li> <li>• Set pricing frameworks</li> </ul>	<ul style="list-style-type: none"> <li>• Employ manufacturing staff;</li> <li>• Maintain production facility – physical separation;</li> <li>• “Call Off” on principals’ purchase orders;</li> <li>• <b>Manufacture product to principal’s specifications;</b></li> <li>• Minimal Risk;</li> <li>• Monitor and coordinate local finished goods, raw material inventories, freight;</li> <li>• Does not own inventor);</li> <li>• <b>Receive a cost-plus toll fee for services provided (its expenses).</b></li> </ul>	<ul style="list-style-type: none"> <li>• Employ the local sales force;</li> <li>• Undertake local marketing;</li> <li>• Perform lab and technical support activities;</li> <li>• Process customer orders;</li> <li>• Collect receivables</li> <li>• Commissionaire</li> <li>• <b>Sell goods as an undisclosed agent on behalf of the Principal within a defined territory.</b></li> <li>• <b>Receive a commission on sales for sales services provided.</b></li> <li>• Limited Risk Distributor</li> <li>• Take flash title immediately before selling to customer.</li> <li>• Receive a gross margin reflecting reduced risk.</li> </ul>	<ul style="list-style-type: none"> <li>• Technical Service;</li> <li>• Centre of Excellence for Emulsion Polymerization.</li> </ul>

**Source:** Own elaboration, based on HB Fuller data (2014/2015)



With respect to the Intercompany Process, as it is so dynamic, it needs a regular revision, in order to mitigate its complexity and increase the procedures harmonization, with the time goes by.

Only that way HB Fuller Group will be able to face up the market fast-changing, meeting the unlimited customers' needs.

Therefore, that is to say that, the Principal Structure by itself is highly complex, meaning itself a barrier to Business Models Integration.

Although being a complex structure, it can produce several gains, mainly at a Tax level, that is the Reports' purpose.

## **2.4. HB Fuller in Portugal and Tax Department**

The HB Fuller Company is present in Portugal and run the 4 activities mention above.

With respect to its presence in Portugal, HB Fuller has invested in Production that is shortly described further, as well as the role of the Portuguese Commissionaire and Lab.

Highlighting that Portugal was the location choosed to set up the HB Fuller Financial Shared-Services, that either will be briefly described, such as the activities there performed.

In this context, is included the Tax department that supports different companies in Europe.

### **HB Fuller in Portugal**

- HBF is a chemical company, in Portugal it is dedicated to the production and trading of industrial adhesives;
- HBF Promoted a significant investment in Portugal, leading to an increase of industrial production in more than 30%, by which currently dispatching daily around 70 tons of chemical products from its premises;
- At the same time, the company in Portugal has invested in an improvement of the Laboratories for Research and Development (R&D), has strengthened its financial teams, commercial and support to all business areas of the Group;

**Production Data**

- ✓ EUR 7M Investment in 2013-14
- ✓ Introduced of new technologies and processes in Portugal
- ✓ ~75 tons produced per day
- ✓ ~70% of productions shipped out of Portugal

**HB Fuller Legal Structure in Portugal**

HB Fuller is established in Portugal by the following legal entities. Each entity is individually subject to Corporate Income Tax.

**1-HB Fuller Isar Rakoll – Commissionaire**

This entity perform Commercial and R&D services to all HBF entities in EIMEA region. Plus that, concentrates the Share Serviced.

**2-HB Fuller Produtos Quimicos – Toller**

Providing manufacturing services and additionally some business support activities.

## Figure 6 - HB Fuller Legal Structure in Portugal

Source: HB Fuller Transfer Pricing data, (2014/2015)

### HB Fuller Portugal – ESS

Just through the increase of efficiency, process harmonization, costs reduction, and the adoption of the best practices, that leads to a quick needs response a Company is able to create value-added.

Therefore, based on the purpose to allies its added-value Sustainable Growth Strategic, HB Fuller Group is running a Shared-Services (ESS) in Portugal<sup>11</sup> – Mindelo, based on the Operating Model: “House of Finance”.

This Operating Model: “House of Finance” is no more than the Finance Consolidation, done by a wide range of Expertise centers<sup>12</sup>, which have been driving to an Effectiveness and Efficiency improvement on the last years.

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<sup>11</sup> The main reasons for HB Fuller Group set up its ESS in Portugal are related to lower salaries, allied to a flexible labor law when compared to other European countries. That is one of the main reasons why Portugal is an excellent site for doing business. Supported by a wide range of expertises in the field. Allowing the Companies reach a bigger cost saving

<sup>12</sup> In this context are currently set up the following Centers of Expertise in Mindelo: Business Analysis, Business Information, FP&A, ATR, Credit Management; Treasury, Tax, Internal Audit, Costing, among few other. Each center of expertise, reinforce each House of Finance 'division, when performing its tasks.

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“As a centralized principal structure complex business model, that provides goods and/or services locally subject to the standard VAT rate, will be created.

**The challenge from an implementation perspective is indirect tax.”**

**(Cornelisse, 2015)**

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It this sense, the Tax Department is a key challenge of the competitive fast-changing environment lived nowadays.

### **Relevant Impacts on Tax Department**

Currently, due to such complex transformation environment that has been lived at HB Fuller, the EIMEA Tax Department has been taking part and supporting on a different wide range of projects that involve the majority of HB Fuller expertise centers. Not only Tax issues are under the scope of the Department.

The major outcome for the EIMEA Tax Department felt Pós-M&A period is the big amount of regular request that force HB Fuller to have a pró-active approach.

Therefore, mainly at this HB Fuller transformation phase, the EIMEA Tax department has been given support to a wide range of Business projects, not only be focused in tax issues.

Following some issues whereby HB Fuller EIMEA tax Department has given strong support.

**EIMEA Tax Department has been given support in some of the following issues:**

- Definition of new transactions' tax treatment within complex supply-chains Structures: (VAT and Corporate Income Tax);
- Coordination of projects related with tax Incentives (R&D, Transfer Pricing);
- Contribution to projects related with the integration of an acquired economic Group (Pós-M&A) and the creation of a ESS for EIMEA region.

Reinforcing that all this business support, allied to a tax perspective aims to take advantage of the (Palffy, 2015, p. 324) *Porter's value chain* concept (Competitive Advantage).

Where was defined that the primary activities work directly to create or deliver a product or service, while support activities help to improve their efficiency. To apply the value chain, a company has to identify each activity and either lower its cost or differentiate it from its competitors to add value in the customer's eye.

In other words, the idea of value chain is that how activities are organized and carried out determines a firm's costs and thus its margin (profit). Each link of the chain must communicate to other departments clearly.

What clearly reflect the centralization of the HB Fuller Business Model aims (Legal Structure Simplification (reduce/or close dormant entities, as well as unneeded branch, Industrial Adhesives Integration on a Principal Structure.)

Topics that will be later detailed. Reinforcing the CIT Tax Saving that HB Fuller Group will get with the Industrial Adhesives integration on a Principal structure.

However, clearly that EIMEA Tax department aims to return soon to the time, in which it was possible to focus on taxes and processes related to tax Optimization.

Thus, has been working day-by-day to faster enable the ONE - Business Model.

### **3-Tax improvement projects**

Allusively to the transient HB Fuller Harmonization'phase, it is now working on processes' simplifications among different entities, towards identification of improvement / optimization and Tax process implementation, as well as, migration of activities from multiple entities across Europe to the ESS.

In this context, will now be summarized the involvement in Tax process improvement.

In fact, many projects were supported, such as the ones relates of External Warehouses Agreements impacts, Tax Credits: SIFIDE, Write-off of Special Payments on Account, Certified Invoices in Portugal, Implementation of Non-Habitual Resident regime CIRS, Invoices reconciliations, Good's Preferential Origin, among many others. However, due to its related subject to the Repot's topic will be following present two of the main projects involved in.

#### **a) Intercompany Freight Charges Process**

Currently, namely with the multiple transactions between different business models (and ERP systems), the freight cost<sup>13</sup> was supported by the manufacturing entity, that was not consistent with I/C policy.

On the other hand, it should be recharged to the Purchasing entity (by the Swiss VAT code). As it is stipulated on the following HB Fuller I/C Policy.

#### **Noted the HBF Intercompany Policy – TP**

“Manufactured Goods and Manufactured Intermediates will be transferred between affiliates at hybrid inventory cost plus 10%. [...] The transfer price mark-up does not include direct external costs related to inventory transfers such as incremental taxes, freight, customs fees, which will be additional charges to the purchasing affiliate.”

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<sup>13</sup> Freight Charges should follow the standard VAT treatment of Services. Therefore, service invoiced between different countries should be applied the reverse-charge rule for services.

## **Figure 7 – Example of HB Fuller TP Recharges**

**Source:** HB Fuller Transfer Pricing Recharges data, (2014/2015)

In this context some support was need, mainly to formalize the Intercompany Freight recharge analysis and propose annex to Intercompany policy.

According with VAT rules, a service is invoiced to where the “customer” (in this case, the HB Fuller selling entity) is established.

So, if the goods are moved from HB Fuller Industrial Adhesives France to Mindelo (Portugal), the freight recharge cannot be booked on the Portuguese VAT registration. The freight must be recharged to HBF Europe using the Swiss VAT registration.

Regarding recharges to SAP entities (either from Prism or other SAP location), the process is simpler: the selling entity should be correspondently invoiced.

### **b) Monthly VAT validation**

As has being said in a Principal Structure Business Model there are always three intervenient in the goods flow (the well-known ABC Transactions – Triangulations)<sup>14</sup> , represented by the “Ship From”, meaning the Warehouse from where the goods left, than the Commissionaire (that performs the Transaction Two – Sales Services) , at last the “ Sold To”, meaning the end customer.

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<sup>14</sup> Consult the simplified intra-Community triangulation rules “on the common system of value added tax,” 2006, Article. 141)

What can be extremely complex, from a VAT point of view, once the Invoices issued to Final Customers by Principal Structure entities, generally invoices different entities and countries (e.g. tollers, commissionaire and customers in different countries).

Therefore, due to such complex Principal Structure BM transactions sometimes could occur some error in VAT treatment, so it is a need task.

### **Monthly VAT validation main support**

It main support remains in the Analysis of invoices raised in on month and validation from a VAT codifications perspective (ship-from, sold-to and ship-to information)

Following the typical Prinicipal Structure 'Business Model Transaction

For a real understanding of the task issue and a deeper understanding of the same follow the following example.

### **Transaction example:**

**HB Fuller Europe (VAT in Portugal) > Commissionaire France > French Customer (VAT FR) > End Customer Italy**

### **Facts**

The transaction involves 4 different companies, in three different countries

### **Assuming**

- HB Fuller organize the transport;
- The French Customer will re-sell the goods to the final customer in Italy;



## **VAT treatment**

The supply-chain is not compliant for VAT purposes.

- There are two different transactions that will be treated as VAT-exempt<sup>15</sup>. According with the VAT rules in an entire supply-chain only a single transaction can be VAT exempt;

- A Domestic transaction will be done in France (between HB Fuller France and the French Customer), however the goods will not enter in France territory;

- Tax Authorities from Portugal or Italy can challenge HB Fuller France or the French Customer to be VAT registered in Portugal or Italy – severe administrative burden.

## **Alternatives**

In order to proceed with the transaction there are the following alternatives:

### **1- Ship – To France**

HB Fuller should deliver the goods in Customer premises (in France) and then he will organize the transport to Italy.

### **2-Invoice directly to Italy**

That is usually not possible.

After some lessons learned, as an HB Fuller's EIMEA Tax intern, it is now my turn to help on this integration process, with a focus on the **Tax Improvement Process, allowing HB Fuller Group to have an insight about the Tax Competitiveness, which the ONE-Business Model could give.** Being on this follow-up that remains mine Contribution.

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<sup>15</sup> Based on VAT Rules, a transaction is VAT-exempted when the supplier and the customer have VAT numbers, from different countries or when there is physical movement of the goods (Moved supply).

## 4-Business Model Integration

### 4.1.Objectives of Business Model Integration

#### Business & Operating perspective

As aforementioned HB Fuller Group aims to reduce these Pós-M&A negative impact, through the most efficient solutions, based on improvement processes.

To turn round the situation, HB Fuller has been managing to survive. However, such differences that started with the Industrial Adhesives Business's Acquisition in 2012, although mitigated, still remain. And so, the HB Fuller PROJET-ONE was created, being ONE-Business model creation vital.

**Table 8 - ONE-Business Model main reasons**

Lead Global – Win Local
<ul style="list-style-type: none"><li>• New targeted operating model</li><li>• When possible, leverage scale by having a single global entity;</li><li>• Delivering breakthrough innovations to grow share and categories;</li><li>• Reducing product complexity, optimizing distribution and increase employee productivity;</li><li>• Develop/build repeatable models within specific functions.</li><li>• IT enablement – one enterprise capability</li></ul>

**Source:** adapted from (Medeiros,2015)

Consistently with (Medeiros, 2015) driving transformation is the HB Fuller PRJECT-ONE already mentioned.

Highlighting the ONE-BUSINESS MODEL goal, based on the centralized classic Principal Structure Business Model running HB Fuller Group, as one of the main drivers of tax competitiveness, effectiveness, profit and performance increase.

In this context, follows up a deeper understanding of the considerations needed to the integration of ONE-BUSINESS MODEL, hence thus the main

advantages that could produce, due to the new relationship among the main business drivers: Functions, Assets and Risk. Allowing value-creation in each stage of the supply-chain, transactions with added-value. Enabling the HB Fuller Group remains the Industrial Adhesives worldwide leader in this competitive environment business market changing constantly.

“Rather than looking to the supply chain as merely a series of activities, organizations are increasingly looking how value is created by each stage of the process. **Lowering costs or raising performance is key.**” (Sudarsanam, 2010, p. 344).

To this raising performance so wished to achieve, the greater ONE- Business model's tax advantage is key. Being further better detailed.

## **4.2.Advantages and Considerations**

### **Business & Operational considerations**

*Given the scale of change that an acquisition may cause in both merging firms, change management concepts may be employed to inform the post-acquisition integration effort.* (Sudarsanam, 2010, p. 710)

In order to gain the expected synergies from an M&A deal, elimination of duplicate function and departments is often seen as an essential step to be implemented quickly and resolutely immediately after the M&A takes effect. (L.Cooper & Finkelstein, 2008, p. 76). For that purpose the company is dependent on a previous integration roadmap strategic plan.

## Business development strategies

Underlying that in the Business field the basic principle is always focus on the Customer's full satisfaction. Therefore that principle is on the base of every business development strategy. And at any time the merging firms must lose that key focus, on its customer, supplier and their external market.

Trying to ensure customer base remains buoyant (Sudarsanam, 2010, p. 774) defends that it is necessary to think of ways to reduce cost of sale and increase customer satisfaction. Believing be possible towards the Business Model's integration.

Tracing then strategies pursued to profitable growth as to protect revenues and margins, expansion into new markets, more efficient platform for product innovation and strategic acquisition, driving consistency in functional and operational excellence (Medeiros, 2015).

The integration process in a major element in developing a firm's core acquisition competence, important question arise in this context:

- *Does the integration experience contribute to organizational learning and their development of a core competence?;*
  - *Does the integration process draw on the corporate memory of past successes and failures?;*
  - *Does the integration process renew the money to make it ever relevant?;*
  - *Does the process provide for feedback loop among strategy, acquisition, deal making and integration to create an interconnected M&A programme?*
- (Sudarsanam, 2010, p. 774)

For an effective M&A integration a Pre and Pós-M&A plan are essential, allied to transparency and honesty in communication.

## **Make an Integration Roadmap Plan – Main considerations**

When it is time to planning some of the main features considered by (Sudarsanam, 2010, p. 84) are the following:

- *Establishing clear leadership and Making tough decisions;*
- *Define the speed of change;*

It is the value creation logic (e.g. absorption or symbiosis) that determines the speed and extends of integration;

The challenges of deciding how fast to move and how best to communicate with employees were mentioned again and again. However, the importance of finding an appropriate leadership style and getting the chemistry within the top management team right was also very close to the top of the implementation agenda. (Building a new and single cultural 'performance).

- *Taking focused initiatives;*
- *Dealing with resistance;*

*Developing strategies for: Managing their expectations, Communicating with them, create a willing to change and a new performance culture.*

- *And at any time loss the primordial focus: the full satisfaction of the customers.*

After the main roadmap strategy established, it is necessary to deepen more de main anticipated changes. Following the main changes for the ONE-Business Model implementation. ONE-Business model main changes

## **Main ONE-Business Model anticipated changes**

According to (Medeiros, 2015) a “business restructuring” refers to the cross-border redeployment by a multinational enterprise of entrepreneurial functions and risks. A business restructuring may involve cross-border transfers of key intangibles.

In fact, regarding to the most of the changes that the integration into the ONE-SINGLE Model will produce has already been thought by the HB Fuller experts.

For a deeper overview of this scene, follow up an illustration already done by HB Fuller Group.

### **Figure 8 - Main changes produced by ONE – Business Model**

**Source:** Based on HB Fuller data (2014/2015)

According to the previous information the main outcomes, which the ONE-Business Model, centralized will lead are directly related to the benefits in the Operating segment, toward a increased decision making, as well as to a reduced business complexity; and at the same time, will benefit the Tax and Legal segment, due to the lower effective tax rate (by shifting profits), and there reduce the tax and legal complexity as a whole. (Medeiros, 2015, p.7)

### **The Impact on the Legal Structure**

As a starting point of the Business Model's integration, the impact on the Legal Structure of the Group.

In this context, it is important to simplify the organization structure of the Group.

That will be the basis of the HB Fuller Tax Competitiveness prevision.

**Assumption n°1:** *Business Models Integration*

Being fulcrum to end up with duplication structure. In this sense, HB Fuller must demerger for certain entities, and at the same time, proceed to some VAT registrations (typical of the Principal Structure).

In this sense, HB Fuller will easier alien operational and legal structure, allowing focusing on basic task of each entity.

*“While a merger results in a bigger company, a demerger reduces the size of a business by breaking it down into a smaller components or divisions, which are then sold off or dissolved. This restructuring process is designed to free the company of divisions with low return, to reduce debt and financing requirements, to give the shareholders a stronger return.”* (Palffy, 2015, p. 44)

For this purpose, it will be needed Intercompany agency termination letters<sup>16</sup>.

Highlighting the importance that this topic will have on the further chapters, as a starting point for the HB Fuller Tax Competitiveness Prevision.

It is to say, that the increase of the Intercompany termination letters means a reduction of the Intercompany Sales. Leading to the formulation of the Assumption n°2 of the HB Fuller Tax Competitiveness Prevision.

**Assumption n°2:** *The Integration of the HB Fuller Business Models, will lead to a decrease of the Intercompany Sales amount.*

Moreover, as a Multinational Group as it is, through this process it is essential to pay attention to the different Labor Law existents (Bureaucratic System), that it can find.

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<sup>16</sup> Inter-Company Services Agreement. Such as, contract for Logistics services, administrative services agreement, travel services agreement etc

Aiming to fulfill the Business Models' integration, HB Fuller should proceed to the transfer of Intellectual Property, Inventory and Customer Lists to defined territories. Thus making easier to transfer products between sites, including, bridging easily with the Emerging Markets.

After that, the Group will be able to prepare new legal agreements. That for sure, will represent lower complexity Intercompany **transactions, mentioned in Chapter 2**, and a better supply-chain management. It is to say, clear information and less misunderstood produced.

Manage businesses more easily on both, European and Global scale, through a bigger speed on decision-making. Leading to a reduction on the overall business cost.

In addition to the aforementioned, running a single Business Model, the Principal Structure, will either bring to the table an Increase of Tax Competitiveness. Proved at **the end of this Chapter 4**, through the Prevision built for that purpose.

Proving the Tax optimization that Principal Structure brings to the HB Fuller Group.

According to (Medeiros, 2015, p.28), the following illustration allow to understand the main challenges faced by the customers in this globalized changing business world, and in contrast what a VCT (value chain transaction) model underlying to centralizer's Business Models (HB Fuller ONE-Business Model) can offer.



## **Figure 9 - The main benefits of ONE – Business Model (a VCT model), part 1**

**Source:** (Medeiros, 2015, p.28).

All in all, this Business Model Integration is fulcrum to improve the Efficiency and Harmonization of the Group worldwide. With the ONE-Business Model, HB Fuller will cut costs and improve its wished Contribution Margins and Net Earnings, once severely reduced after IA's Business Acquisition allied to the tremendous expense with the EIMEA's region integration.

### **ONE BUSINESS-MODEL & The Tax new World**

The Basic principle of the Value Chain Transaction is to centralize the business model to improve financial performance.

As aforementioned, part of the HB Fuller PROJECT-ONE is the integration of Business, that emphasizes the synergies of Principal Structure with Harmonization.

However, it is important to highlight that this advantageous integration, it is easier said, than done. So, a lot of considerations should be taken into account previously.

Toward a few more detail, it will be possible to understand deeper the Value Chain Transactions changes that showed up due the centralization of the Business Model, into the ONE-Business Model.

Consistently to (Medeiros, 2015), p.8) the main potential benefits will be the following:

**Figure 10 - The main benefits of ONE – Business Model (a VCT model), part 2**

**Source:** (Medeiros, 2015, p.8).

### **Functional Considerations & Tax Considerations**

Additionally, through OCDE Transfer Pricing Aspects of Business Restructurings, it is possible to understand that Business restructurings may often involve the centralization of intangibles, risks, or functions with the profit potential attached to them.

These changes may typically consist of:

Therefore, forward that information to the HB Fuller Business case, it is expected that by the time of its Business Models integration (Industrial Adhesives entities into Principal Structure) changes in Risks, Assets and Functions will be met.

Allied to the Key point aforementioned in Functional Analysis, the main changes could be finding:

The Ownership of the Inventory will pass to the Principal, reflecting a lower Risk expected. Therefore, due to the direct Risk-Return tradeoff existent there also will be a reduction in the local profit and margins, hence thus profit decentralization, resulting in a shifting profit (typical of the classical Principal Structure Business Model) .

Moreover, these risk changes will lead to an asset and functions changes, once the Risk & Assets either have a direct relation with Functions, toward the Business Model integration, the Assets will belongs to the Principal's ownership. Thus, increasingly the Function's centralization, means a Business Model Centralization.

Consistently, to what have been defended so far, this Business Model Centralization will produce several operational, legal and tax benefits.

- **It is to say that towards the Business Model integration, will directly impact the Tax Function, hence thus the Risk Management.**

“Tax functions will be transforming their operations with technology to automate and accelerate tax-planning opportunities and trends. “

(Bracco et al., 2015, p. 16)

Therefore successful companies must find ways to bridge the gap between their current capabilities and the future reality, **converting the Risk Management into an Asset.**

Reinforcing that **Risks** are of critical importance in the context of business restructurings, once as aforementioned is the **allocation of risk assumed between the parties to the arrangement that will affect how profits or losses resulting from the transaction are allocated.** <sup>17</sup> (Transfer Pricing Policy). Being here where remains the **Tax Competitiveness of HB Fuller ONE-BUSINESS MODEL.** (OECD, 2016, p. 7)

**It is to say that, toward the Business Models integration either Risks & Assets will be from Principal 'ownership, therefore the Principal's location will be the profit location (Swiss).**

As will be proved in the Chapter 4.

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<sup>17</sup> In HB Fuller case, due to the previous already settled up in the Principal Structure 'transactions arrangements (see chapter 2.) the arm's length pricing of the transaction **will not be used.**

The application of the arm's length principle to a business restructuring must start, with the identification of the commercial or financial relations toward the accurate delineation of the transactions comprising the business restructuring and the functions, assets and risks before and after the restructuring. (OECD, 2016, p. 5)

## Let's dig deeper the integration roadmap plan – Tax Strategy

*How the tax function could bring additional cost savings and value to the business?*

“(…), the tax function is often asked to participate in a wider organizational drive to leverage synergies and rethink roles and responsibilities. Increasingly, shared service models are being explored to take on these types of preparatory and data collection tasks within tax functions. **A shared services resource model or co-sourcing/outsourcing can result in direct cost savings. And by rethinking the shifting of responsibilities within the tax processes, core tax personnel can better utilise their higher skill sets for strategic activities such as planning and analysis.**” (Bracco et al., 2015, p. 14)

Within the context of tax planning of Business Models integration may focus that the Restructure involves the transfer of ongoing operations, assets, Inventory, Goodwill and so on, underling mainly to the VAT and customs subjects (TP rules). Allied to the fact that the terminated contracts among parties (means exist costs), but news to come. Therefore Entrepreneur territory, threads tax's advantageous among the new parties is key for an efficient tax management.

## **Figure 11 - Connecting business and tax substance in an unpredictable political climate**

Source: (Medeiros, 2015, p.33)

*All in all, the main advantages of a single business model. It is a combination of advantages of Principal Structure and Harmonization.*

On the following Chapter is represented the analytical part regarding what have been discussed so far: The Prevision itself.

### **4.3.Tax budget after implementation – Analytical analysis**

#### **4.3.1.Background and entities**

In the sense of the Report, here is intended to introduce the chart of HB Fuller entities that will be used in the Prevision.

Firstly it was intended to be done a prevision with the integration of all Industrial Adhesives entities, however still exist a wide range of Industrial Adhesives entities, being extremely difficult to do a estimation for all, due to the highly complexity produced by the two Business Modes currently running the HB Fuller Group core business. Therefore, later was decided to restrict the sample to the following.

#### **Sample**

##### **✓ HB Fuller French Industrial Adhesives and Italian Industrial Adhesives.**

It was the choosed ones, because both have warehouse, and plus that, currently it run a significant part of the business. It is to say that due to its grant market share, the impact of the Business Models integration would be significantly felt.

For a deeper understanding of its context, follows up the Italian and French Legal Structure.

**Figure 12 - Italian and French H.B.Fuller Legal Structure**

Company Co.	Organizational Unit	Country	Business
903	HB Fuller France SAS	FR	Principal Structure

**Holding Company**  
**Commissionaire**  
**Industrial Adhesives**  
**Toller**

**Source:** Own elaboration, based on HB Fuller data (3014/20)

In this sense, it is important to have an insight of the presence of HB Fuller Company in France and Italy. Therefore it will be possible to better understand the mixing between the both Business Models running the Business, toward both Principal Structure and Industrial Adhesives entities.

Consistent with the purpose following a Matrix of it

**Table 9 - Legal presence of HB Fuller Company in France and Italy, toward either Principal Structure and Industrial Adhesives Business Models.**

<b>960</b>	<b>HB Fuller Adhesives France SAS</b>	FR	Industrial Adhesives
<b>906</b>	HB Fuller Italia Holding s.r.l.	IT	Principal Structure
<b>907</b>	HB Fuller Italia s.r.l.	IT	Principal Structure
<b>908</b>	HB Fuller Italia Produzione s.r.l	IT	Principal Structure
<b>962</b>	<b>HB Fuller Italia Adhesives Italia s.r.l</b>	IT	Industrial Adhesives

**Source:** Own elaboration, based on HB Fuller Group data, (2014/2015)

Based on the previous Matrix, it is possible to confirm that currently there are one HB Fuller Adhesives France SAS (960 Cco.), and another HB Fuller Italia Adhesives (962 CCo.), running its business in France and Italy, respectively. At the same time and place than others HB Fuller entities, but in the classical Principal Structure Business Model.

Therefore, aiming the vital integration of the Business Models, this HB Fuller French and Italian Industrial Adhesives entities have to be integrated into the classical Principal Structure Business Model.



Highlighting the explained in the previous chapters that the main difference of this distinct business models remains into the fact that **the Industrial Adhesives entities live by itself, otherwise the Principal Structure entities, where in each transaction there are always three parties evolved.**

**In this context, one Industrial Adhesives entity (IA), will origin two parties of the Principal Structure transactions, a Toller Manufacturer and a Commissionaire, when integrated.**

**Table 10 - Overview before and after Business Models integration**

Company Co.	Organizational Unit	Business	ONE- BUSINESS MODEL Principal Structure Business Model
960	HB Fuller Adhesives France SAS (FR)	IA	- Toller Manufacturer - Commissionaire
962	HB Fuller Italia Adhesives Italia s.r.l	IA	- Toller Manufacturer -Commissionaire

**Source:** Own elaboration.

Highlighting that through this integration either the Risks, Assets & Functions will change its ownership.

Based on that data, and aiming going into account the PROJECT-ONE Tax goals, will be develop a Prevision based on the following Assumptions.

#### **4.3.2.Assumptions and Methodology**

With respect to the main considerations of the previous Chapter, allied to the sample choosed, some Assumptions have been made to support effectively the further Prevision. Plus that, either the methodology used can be found further.

**Summing up the main Assumptions:**

The first assumptions made were regarding to the change in the Legal Structure, due its Functional Analysis, meaning Business Models integration, as aforementioned

**Table 11 - ONE-BUSINESS MODEL – Functional Analysis Overview**

Company Co.	Organizational Unit	Business	Principal Ownership
960	HB Fuller Adhesives France SAS (FR)	IA	- Risks - Assets - Functions Centralization
962	HB Fuller Italia Adhesives Italia s.r.l (IT)	IA	

Source: Own elaboration.

**Following the main operational (i) and tax (ii) assumptions.**

## **Assumptions:**

### **i. Operational Assumptions:**

#### **1. Business Model integration**

All entities will not act on behalf of H.B.Fuller Europe (Transferred Risk, mainly Inventory Risk to H.B.Fuller Europe).

#### **2. Diluting Intercompany Sales**

Due to the HB Fuller Business models' integration itself.

#### **3. Diluting COGS (main variable)**

**COGS = 90%** (based on Commissionaire's agreement mark-up of 10%).

#### **4. Purge the Target Operation Margin** (for simplification).

#### **5. G&A % Division**

70% Commissionaire/ 30% Toller.

#### **6. Commission Fee Mark-Up: 10%** (based on HB Fuller TP' Policy – Commissionaire's agreement).

#### **7. Toller Fee 5%.** (Based on HB Fuller TP' Policy – Toller's agreement).

#### **8. Lab Fee: 5%.** (based on HB Fuller TP' Policy).

#### **9. Locally lower Profit and Margins**

Corporate Income Tax has to be positive, if don't will be needed a true-up<sup>18</sup>

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<sup>18</sup> A True-up is compensation from the Principal. Is calculated through the comparison between the Allied Sales and the Gross Margin, we can have the following both scenarios:

- 1) Allied Sales > Gross Margin = True-Up needed;
- 2) Allied Sales < Gross Margin = All right

## ii. Tax Assumptions:

### • HB Fuller Global CIT saving expected

1. For the purpose and based on the following main CIT Tax Rates.

Country	Local CIT Tax rate (Data 2015)
France	33,33%
Italy	27,5%
Switzerland	8%

2. Due to the shifting profits the HB Fuller Company will be able to take advantage of the country ETR differences.

In other words, It is expected **simultaneously** the both events:

- Taxed amount in Swiss will be higher, and
- Local COGS in France and Italy will be lower after the integration of the entities in the Principal Structure Business Model.

Both of these events will be certificated after split the Industrial Adhesives entity into Commissionaire and Toller entities – Business Models integration.

### Methodology

The Prevision remains in the construction of new P&L's for the next Principal Structure's HB Fuller entities. Therefore based on Analytical accounting.

With more detail, based on november 2015 P&L's of both French and Italian IA entities, previously identified, will be built a Prevision of the P&L's for the same entities but, by the time it will belong to Principal Structure. Reflecting the so wished HB Fuller integrated Business Models and the Tax Competitiveness produced through integration.

The complexity of this construction remains on the Principal Structure Business Model itself. Once, analytically this means that will be necessary to split the current IA entity P&L existent, into two P&L's, because Toller Manufacturer entity and the Commissionaire entity are two of the constituents' three parties of the Principal Structure Business Model, as described in the previous Chapters.

In other words, two P&L's of Industrial Adhesives entities will create four different P&L's for the same entities, but now in the Principal Structure Business Model.

In this context, the data and the main variables of the Prevision will be the following:

**Data:**

- ✓ Data's from Oracle Hyperion Financial Management - HFM source, a consolidation and report tool.
- ✓ Data's date: november, 2015.
- ✓ Units: 000 EUROS (rounded values).

**Main Variables:**

- ✓ Allied Sales.
- ✓ COGS and,
- ✓ Amount of Profit before taxes.

Summing up, the Prevision was constructed based on the aforementioned data, main variables and taking into account all the Assumptions previously detailed.

The first step is was to consider ONE-Business model, then a diluting of the Intercompany Sales and after the remaining assumptions.

Starting by some **Principal Structure Business Model's details, such as the Tolling Fee, Commission Fee and Lab Fee calculation, once in the case of the Toller and Lab is the only return.**

Highlight the key point that the CIT Tax just exist on positive Income. Therefore, sometimes may be necessary compensations from the Principal – the True-ups. (That is the case).

Aiming a better understanding regarding to what was the procedure (See Appendix 1).

In the next chapter will be presented and analyzed the results obtained.

Regarding to the presentation of the data it will be in line with the following ABC case's structure:

**A. French Case;**

**B. Italian Case;**

**C. Main Outcome and Conclusion**

Within the both, A and B cases, the structure itself will be the same. Will show up three main Tables and a General Graphic for each case.

**A. French Case**

**Table 12**

Represents the current status of **HB Fuller Adhesives France SAS'P&L** (Cco.960), (nov, 2015), as an IA entity;

**Table 13**

Represents the **HB Fuller Adhesives France SAS integrated in Principal Structure' Business Model (it's the provisional P&L) – Report's Contribution.**

**Table 14**

Represents the HB Fuller Adhesives France SAS' P&L **main differences before and after Business models' integration (Comparison).**

Hence, thus allow HB Fuller Group to have an insight about the main significant impacts that the integration of IA entities in ONE- Principal Structure 'Business Model could produce at its core business, mainly its Tax Competitiveness.

For a deeper understanding, either a Graphic with the main variables will be present, for the purpose.

## **B. Italian Case**

Through the same way, the Italian Scheme will have the same structure.

### **Table 16**

Represents the current status of **HB Fuller Italia Adhesives Italia s.r.l 'P&L (Cco 962)**, (nov, 2015), as an IA entity;

### **Table 17**

Represents the **HB Fuller Italia Adhesives Italia s.r.l integrated in Principal Structure' Business Model (it's the provisional P&L) – Report's Contribution.**

### **Table 18**

Represents the **HB Fuller Italia Adhesives Italia s.r.l ' P&L main differences before and after Business models' integration (Comparison).**

In the same sense as to French, either a Graphic with the main variables will be present, for the purpose.

## **C. Main Outcome**

In this part, will be given the most important outcomes of the Results obtained for the period Pós-M&A, for both entities.

### **4.3.3. Analysis**

Following the main tables and figures, with respective results.

#### **A. French Case**

**Table 12 - HB Fuller Adhesives France SAS Nov, 2015 P&L (in '000 EUROS)**

**Source:** Based on HB Fuller Adhesives France SAS Nov, 2015 P&L (in '000 EUROS)



**Table 13 - HB Fuller France P&L Pós – BM integration (in '000 EUROS)**

**Source:** Own elaboration, based on HB Fuller Adhesives France SAS Nov, 2015 P&L (in '000 EUROS)

**Table 14 - HB Fuller Adhesives France SAS integrated in Principal Structure' Business Model (Comparison before and after BM' integration)**

**Source:** Own elaboration, based on HB Fuller Adhesives France SAS Nov, 2015 P&L (in '000 EUROS)

## French Results Analyze

Following the main French Results obtained.

**Table 15 – Main French Results**

	Profit B4Tax	CIT Amount	Net Earnings
960 SAP Legacy entity	1.982	715	1.267
960 as a Three-Party entity	1.341	447	894
<b>Difference between 3-Party&amp;SAP BM</b>	<b>-641</b>	<b>-268</b>	<b>-373</b>

	Allied Sales	Contribution Margin	COGS	Gross Mairgin
960 SAP Legacy entity	40.817	26.361	-85.383	11.914
960 as a Three-Party entity	10.000	-1.650	-57.391	11.689
<b>Difference between 3-Party&amp;SAP BM</b>	<b>-30.817</b>	<b>-28.011</b>	<b>27.992</b>	<b>-225</b>

**Source:** Own elaboration, based on HB Fuller Adhesives France SAS Nov, 2015 P&L (in '000 EUROS)

## France Scheme

Due to the BM integration, it was expected a function's change. Mainly from a Full risk entity to a Limited Risk one, it was anticipated a Lower Risk level to the entity in the ONE-Business Model. In the sense, direct risk-profit tradeoff, with a risk reduction, and a local profit reduction either; and so it happens.

In this context, it was possible to confirm that the Allied Sales passed from 40.817 '000 EUROS to 10.000 000 EUROS, less 30.817 000 EUROS allied sales amount.

In this sense, occurs a drastic reduction on the Contribution Margin from 26.361s '000 EUROS to e negative value -1650 '000 EUROS, resulting in the 28.011 000 EUROS Contribution Margin's reduction.

Therefore, with such reduction verified so far, as expected a significant reduction on COGS either happen. More or less a reduction of 28.992,73 000 EUROS (from a COGS amount of 85.383 000 EUROS, at the IA entity to 57,391 000 EUROS integrated in Principal Structure' BM). Leading to a Gross Margin amount reduction, in the value of 225 000 EUROS.

Following the P&L's Prevision results, a **French's Profitb4Tax in the 641 000 EUROS** amount will be felt in ONE-Business Model, from a quite significant reduction 1982 000 EUROS to 1341 000 EUROS.

All the amounts verified so far, **means a quite significant CIT's saving amount to the French entity of approximately 268 EUROS**, reflecting a decrease of 715 000 EUROS to 447 000 EUROS.

Culminating, as is only to be expected in a much lower French locally Net Earnings amount reached than previously (373 000 EUROS reduction), from 1267 000 EUROS to 894 000 EUROS.

### **Graphic 1 - Comparison Before and After HB Fuller Adhesives France SAS Principal Structure ´integration**

**Source:** Own elaboration, based on HB Fuller Adhesives France SAS Nov, 2015 P&L (in '000 EUROS)

All in all, nothing in the French scheme occur differently to the expected before.

Hence, thus is expected a so satisfactory result either in the Italian scheme.

It is now time to take the doubts.

Following the main outcomes reach by the French scheme, will now check the Italian Scheme.

Regarding to the Italian Scheme it is possible to analyze the follow.

## **B. Italian Case**

**Table 16 - HB Fuller Italia Adhesives Italia s.r.l P&L Nov, 2015 P&L (in '000 EUROS)**

**Source:** Based on HB Fuller Italia Adhesives Italia s.r.l SAS Nov, 2015 P&L (in '000 EUROS)

**Table 17 - HB Fuller Italia P&L Pós- BM integration (in '000 EUROS)**

**Source:** Own elaboration, based on HB Fuller Italia Adhesives Italia s.r.l Nov, 2015 P&L (in '000 EUROS)



**Table 18 - HB Fuller Italia Adhesives Italia s.r.l ' P&L main difference before and after Business models' integration (Comparison).**

**Source:** Own elaboration, based on HB Fuller Italia Adhesives Italia s.r.l Nov, 2015 P&L (in '000 EUROS)

## Italian Results Analyze

Following the main Italian Results obtained.

**Table 19 – Main Italian Results**

	ProfitB4Tax	CIT Amount	Net Earnings
962 SAP Legacy entity	1.056	195	861
962 as a Three-Party entity	296	81	215
<b>Difference between 3-Party&amp;SAP BM</b>	<b>-760</b>	<b>-114</b>	<b>-646</b>

	Allied Sales	Contribution Margin	COGS	Gross Mairgin
962 SAP Legacy entity	9.298	6.334	-20.761	2.337
962 as a Three-Party entity	2.278	-2.133	-18.467	2.012
<b>Difference between 3-Party&amp;SAP BM</b>	<b>-7.020</b>	<b>-8.467</b>	<b>2,294</b>	<b>-325</b>

**Source:** Own elaboration, based on HB Fuller Italia Adhesives Italia s.r.l Nov, 2015 P&L (in '000 EUROS)

## Italian Scheme

In the Italian scheme context, starting analyzing from the same point as in French scheme, it is possible to confirm that due to the Business Models integration, occurred a reduction in the Allied Sales, a 7.020 000 EUROS reduction, once from 9.298 000 EUROS reduce to 2.278 000 EUROS.

Followed by a drastic reduction in Contribution Margin amount, where before the Business Models integration remained a 6.334 000 EUROS amount, and after the Business Models integration the same reduce to a negative value of -2133 000 EUROS, therefore a huge difference amount of 8.467 000 EUROS.

In this sense, as expected, the COGS either suffer a reduction from 20.761 000 EUROS to 18.467 000 EUROS, leading to a 2.294 000 EUROS reduction. In fact, this reduction it was not a surprise due to the previous risk reduction, which should be reflected in a reduction's profit change. With all amounts being reduced so far, just a Gross Margin reduction could happen, and so it happened. From a 2.337 000 EUROS Gross Margin's amount to a slight reduction of 2.012 000 EUROS Gross Margin's amount. Even so, it still exists.

In this follow-up, it is possible to find a suitable further reduction in the **Italian ProfitB4Tax amount, a huge different of 760 000 EUROS**, that results from a 1.056 000 EUROS ProfitB4Tax amount to 296 000 EUROS ProfitB4Tax amount. In this context a local **Italian CIT's saving amount of 114 000 EUROS**, originated from an Italian IA entity CIT's amount of 195 000 EUROS to a 81 000 EUROS 3P entity CIT's amount.

All in all, once again the final result, shows a clear reduction in the local Italian Net Earnings of 646 000 EUROS after the BM integration. Through a so evident decrease in the Net Earnings amount of 861 000 EUROS as IA entity, to a new Net Earnings amount of 215 000 EUROS as a Principal's newborn entity.

## **Graphic 2 - Comparison Before and After HB Fuller Italia Adhesives Italia s.r.l Principal Structure 'integration**

**Source:** Own elaboration, based on HB Fuller Italia Adhesives Italia s.r.l Nov, 2015 P&L (in '000 EUROS)

### C. Main Outcome

Highlighting that the most important outcome is the possibility **of the ProfitB4Tax Amount could be shifted**, from the local to the Principal, due to the Business Models integration (according with the TP rules). It is here where remains the Tax Competitiveness of the ONE's Business Model's HB Fuller Group.

Once, the ProfitB4Tax amount's differential reached locally, that will be taxed at the current Swiss ETR (8%), produces the following two main simultaneous impacts:

**In fact, from a different perspective, it is to say that the real outcome of the BM's integration, at the tax level, is that the COGS's reduction occurred locally, will increase in the taxable amount in Swiss (so, at a much lower tax rate), in the same amount.**

**Table 20 – Main Sample Outcomes**

Local Saving	Global HB Fuller Group's Tax Competitiveness pós-BM integration
French CIT's saving amount of approximately 268 000 EUROS	French's Profitb4Tax in the 641 000 EUROS
Italian CIT's saving amount of 114 000 EUROS	Italian ProfitB4Tax amount of 760 000 EUROS

**Source:** Own elaboration, based on HB Fuller Italia Adhesives Italia s.r.l & HB Fuller Adhesives France SAS Nov, 2015 P&L (in '000 EUROS)

Therefore being in the ProfitB4Tax's differential where remains the amount to be shifted to the principal's location, meaning in other words, the increase on tax amount on Swiss, at the Swiss CIT's tax rate (8%), toward the integration on the business models.

In this context, seems clear that after the BM integration and based on the data used and results obtain, comparing the both sample's entities, the Italian's entity will produce a greater influence in the tax competitiveness of the Group than the French's entity.

Once, the increase to the tax amount in Swiss by the Italian entity will be 60, 79 000 EUROS, compared with the smaller increase to tax amount in Swiss by the French entity 51, 28 000 EUROS.

In this sense, bigger or smaller increase produced, what really matters is that both entities when integrated will contribute for the tax competitiveness of the HB Fuller Group.

**Table 21 – HB Fuller'sample Tax Competitiveness**

	<b>Profit B4Tax Before BM Integration</b>	<b>Profit B4Tax After BM Integration</b>	<b>(Difference) Comparison Before &amp; After BM Integration (in '000 EUROS)</b>	<b>Increase to Tax Amount in Swiss (Swiss CIT Tax rate 8%)</b>	<b>Comments</b>
<b>France</b>	1982	1341	641	<b>51</b>	more 51 to Tax Amount in Swiss
<b>Italy</b>	1056	296	760	<b>61</b>	more 60 to Tax Amount in Swiss
				<b>112</b>	more 112 to Tax Amount in Swiss

**Source:** Own elaboration, based on HB Fuller Italia Adhesives Italia s.r.l & HB Fuller Adhesives France SAS 'Nov, 2015 P&L (in '000 EUROS)

**Highlighting that through the prevision previously done, the sample's entities, when integrated will contribute for the HB Fuller Tax Competitiveness, through an increase of 112 000 EUROS. to Tax Amount in Swiss.**

#### 4.3.4. Conclusions

Based on the data obtained it is possible to confirm the main local expectations, such as the local lower risk, allied to HB Fuller Legal simplification allows to dilute the intercompany sales (allied sales), hence thus reduce the contribution margins and lower COGS, too.

Therefore a lower Gross Margin and Profit before taxes. Followed by less local income tax to pay, hence thus a lower Net Earning value at the end.

All in all, towards an expectations previously settled up and final data obtained, it is possible to say that does not exist any surprise. Indeed, the prevision ´results just come as one more proof that the Business Models integration is one of the main drivers of value creation for the HB Fuller Company or any other Company.

Following the HB Group tax competitiveness, produced by the tax function, toward the Business Models integration:

Through the Business Models integration, just the HB Fuller Europe will have the Inventory ownership, therefore reflected in the local lower risk, hence thus, to the direct relation with risk, a lower profitability amount as well.

In other words, it is to say that, **through the Business models integration the remuneration of activities will be in accordance with the new combinations of Risk-Profitability.**

**-The amount taxed locally will be lower than before, the reduction of COGD locally will be converted in a higher Profit amount to HB Fuller Europe, in the same amount. (Shifting profits)**

**-The Amount of 112 (in '000 EUROS) is the Tax Competitiveness that HB Fuller will get when just FR and IT entities integrate their BM.**

## 5-Conclusion

It is now time to emphasize that the synergies and the indirect advantages are not easily measurable like only one system, and are not subject to this work. So, let's focus on Tax savings of the integration.

Through the Integration of the Business models, the FR and IT Industrial Adhesives entities will meet a local lower COGS' amount, a lower profitability and margin level, leading to an increase, at the same amount on the tax amount in Swiss (an ETR' advantageous country). Reinforcing the Tax competitiveness of HB Fuller Group.

Belonging to Principal Structure the French entity will increase the Tax Competitiveness of HB Fuller in 51 '000 Euros and the Italian entity tax contribution's on 61 '000 Euros. In addition to that significant Corporate Income Tax saving, is expected no physically movement on goods, less intercompany transactions and entire transactions in Principal Structure, reflecting the HB Fuller Group Harmonization.

In turn, it will be due to the Business Models integration and HB Fuller' TP policy, which allows shifting profits, hence thus benefit from ETR differences that remains the Tax Competitiveness of the HB Fuller Group in the near future, minimizing the tax bill and recording more profit. In other words it will be towards the HB Fuller 'BM integration, that the Principal will be able to record a bigger amount of profit at a much lower rate, once the local gross profit will be taxed at the Swiss 8% ETR, instead of 33,3% or 27,5%.

**In fact, it is to say that the real outcome of the BM's integration, at the tax level, is that the COGS's reduction occurred locally, will increase in the taxable amount in Swiss (at a much lower tax rate), in the same amount. Through the Business Models integration the remuneration of activities will be in accordance with the new combinations of Risk-Profitability.**

Notwithstanding the classical Principal Structure by nature is highly complex, its simplification and harmonization are possible.



Through a purely Tax perspective, the tax's competitiveness that the BM's integration will defiantly allow HB Fuller to widely exceed its expectations, running more effectively its core business towards a much more consolidated and functional way. Therefore, increasingly, Business Models centralization in Tax and Functional analysis will increase the competitiveness in this constant changing world. It is proof proven that ETR is key point for the new structures set up their business, definitely a FDI attractiveness factor, which is able to manage a supply-chain costly-effective, is a requirement. Once, just that way it is possible to create profit and generate added-value for the shareholders.

Noting that, at presently just was used a sample of two IA entities; however there still exist in the current HB. Legal Structure many other IA entities, almost closing or dormant waiting for the integration on the Principal Structure's BM. **Thinking about the fact that with just the integration of two IA it is possible, at the tax level, saving so much 112 '000 EUROS, imagine through the full IA entities 'integration, what could be a tremendous tax saving as a whole.**

In this context, it is also important to notice that this big dimension Business decisions, are highly dependent on Preference and risk adverse level of decision-making (USA Corporate).

With respect to future perspectives in order to achieve the Harmonization of HB Fuller company, improving process, analytical capability and technologies, that has been essential on the emerging markets integration, are key. If the Business Model changes, the tax function has to keep pace as well.

In light of what has been discussed so far, *"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change."* Charles Darwin, and the Business Models are not an exception.

All in all, definitely that one of the HB Fuller Corporate mottos is *"think global, act local"*, defiantly an experience for life, of a lifetime.

## **Appendix**

### **Appendix I - France P&L's forecast construction**

## **Appendix II - Italy P&L's forecast construction**

## Appendix III

Aiming to give a more detailed insight following some of the main formulas and concepts used for the prevision built.

### Some Formulas to keep in mind:

**Gross Profit** = Sales-COGS

**Gross Margin** = (Gross Profit/Sales), that should be consistent every month.

**Target Operation Margin** = Price-Variable Cost (Fuller' RM):

### Main Concepts

**-Mark-up's France and Italy** – Assuming the ones on Commissionaire and Toller Intercompany Agreements.

#### **-Commission Fee & Toller Fee calculation**

Through the mark-up present in the Commissionaire and Toller Agreements, it was remade the calculation usually done for the Commission Fee and Toller Fee Amount.

#### **Commission and Toller fee Role**

**The Commission and the Toller fee are the remuneration of these entities, respectively.**

**Toller fee** - toll manufacturing fee calculated as a mark-up on processing costs.

**Commission fee** - is based on a commission fee calculated as a percentage of the purchase value.

### **Commission Fee and Toller Fee True-up Role**

Based on HB Fuller Business Model and Internal rules at the beginning of the year is setup a Budget of Predicted Values for all expertise centers, and at the moment at the Effective values, is done a True-Up in order to replace the Budget.

In this context, and based on HBF Transfer Pricing Policy, allied with the Business Model, where there exist entities acting on behalf of HB Fuller Europe, it is essential to have a Commission and Toller fee.

**It is to say that, this way, it is impossible the Toller & Commissionaire entities to have a negative Net Earnings, or Profit Margins. Reinforcing that these entities always have compensation from the Principal, allowing them always to produce a positive result.**

Highlighting that for that purpose the COGS ´variable assume the most important role.

In this context, the Variable COGS was calculated the following two times.

### **COGS calculation:**

#### **1)COGS: based on Mark-up.**

It is to say that, once the Commissionaire Mark-up is 10%, was assumed the COGS as 90%. Once it is the way to reflect it on the P&L.

$\text{COGS} = 90\% \times \text{Trade Sales}$ .

#### **2)COGS: aiming to maintain the entity Profitable.**

For that purpose it is needed to perform COGS Adjustments. Which will be to Operating and Non-operating expenses.

Highlight that the CIT Tax just exist on positive Income. Therefore, sometimes could be needed compensations from the Principal – the True-ups.

Through the comparation between the Allied Sales and the Gross Margin, we can have the following both scenarios:

**1-Allied Sales > Gross Margin = True-Up needed**

**2-Allied Sales < Gross Margin = All right**

In this context, based on the HB Fuller 'Sample data will be needed to perform the Tue-up. Following will be presented its calculation.

## **How is calculated the Commissionaire and Toller True-up?**

### **1)It is calculated a Floor**

That is a Minimum value acceptable.

### **2)Commissionaire and Toller True-up**

Difference between the Floor previously calculated and the Gross Margin.  
Producing the Positive final effect, through this adjustment.

### **-Intercompany Sales = Intercompany Transactions**

Based on market's comparable, regarding to the mean of all HB Fuller Toller's and Commissionaires, the G&A expenses and Non-Operating expenses are divided by the following way:

#### **Assumption 2: G&A % Division**

#### **G&A Expenses and Non-Operating % Expenses Division**

<b>G&amp;A Expenses</b>	<b>Non-Operating Expenses</b>
70% Commissionaire	70% Commissionaire
30% Toller	30% Toller

Before Business Models integration, the IA entities performed I/C Sales, among PRISM entities. After the integration of the IA Legacy entities in Principal Structure' Business Model, the remaining amount of Allied Sales will be related to Sales among HB Fuller entities set up out of EIMEA region. E.g. Sales for HB Fuller India.

#### **Calculation: Toller Fee, Commission Fee, Target Operation Margin.**

For this purpose, based on legal information, on the Toller and Commissionaire Agreements, the percentages are the following:

**Toller Fee – 5%** (the only remuneration of the Toller);

**Commission Fee – 10%;**

**Lab fee: 5%.**

**During the Business Models Integration it is essential to pay attention to:**

*-Expunge Target Operation Margin from Sales; (related to Transfer Pricing Policy);*

-Commission Fee calculation;

-Toller Fee calculation;

-Lab Fee Calculation.

**How are calculated the Intercompany Margins? (HB Fuller Transfer Pricing Policy)**

These margins are calculated based on Market's comparable that is through Risk level/by Business, being independent between them and in all similar with HB Fuller Group.

-Assuming that the 10% Mark-up as an acceptable Profit between them.

**How that works?**

e.g. Glue 1 KG =X Price, that is, based on the unit price of the Raw Materials, which leads to a final price, and then added it a 10% Mark-up when sell to another HB Fuller Company.

**True-Up Calculation**

I/C Sales + COGS = Gross Margin

Floor calculation:

Toller Fee Compensation

Toller Fee Mark-Up: 5%

The Costs represent: 100%

Performing a Compensation through the Mark-Up, will lead to (Costs+ Mark-up), (100%+5%), 105%



In this sense, based on the previous information, follows the both COGS True-ups for France and Italy forecasts. It is to say the Commission Fee, and Toller fee used. As well as, its Lab fee.

### **French case: COGS True-up**

<b>True-up Comm fee</b>	
Floor (105% of operatin expenses)	8.639,52
Compensation non-operating	449,89
	<u>9.089,41</u>
	6.648,00
	2.441,41
<b>True-up Toller fee</b>	
Compensation non-operating	
Floor (105% of operatin expenses)	16.862,07
Compensation non-operating	<u>192,81</u>
Toller fee	<u>17.054,88</u>

### **Italian case: COGS True-up: COGS True-up**

<b>True-up Comm fee</b>	
Floor (105% of operatin expenses)	1.157,82
Compensation non-operating	<u>257,48</u>
	<u>1.415,31</u>
	-192,52
<b>True-up Toller fee</b>	
Compensation non-operating	
Floor (105% of operatin expenses)	4.482,94
Compensation non-operating	110,35
Toller fee	<u>4.593,29</u>

**Lab fee:** 5 %\*Laboratory Expense

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## **Annexes**

### **Annex 1 - HB Fuller Financial Highlights (2015)**

**Source:** HB Fuller Annual Report, 2015, Retrieved from [file:///D:/0%20-%20SONY/Downloads/2015%20Annual%20Report%20\(2\).pdf](file:///D:/0%20-%20SONY/Downloads/2015%20Annual%20Report%20(2).pdf).

## Annex 2 - Some of the most common barriers to takeovers in different countries are the following.

<b>Structural Barriers</b>	<b>Statutory</b>
	<ul style="list-style-type: none"> <li>• Strong powers for supervisory boards to block mergers. Unions and workers 'councils have say on takeover and strong redundancy rights;</li> <li>• Discriminatory tax laws against foreign acquires, e.g. withholding taxes on dividends and interest.</li> </ul>
	<b>Regulatory</b>
	<ul style="list-style-type: none"> <li>• Antitrust regulation, foreign investment review, rules of stock exchange and professional self-regulatory bodies</li> <li>• Reciprocity rules that allow countries of firms to opt out the EU Takeover Directive</li> <li>• Absence of statutory or voluntary bodies to regulate takeovers</li> </ul>
<b>Technical Barriers</b>	<b>Infrastructure</b>
	<ul style="list-style-type: none"> <li>• Absence of M&amp;A services, e.g. legal, accounting, investment banking services</li> </ul>
	<b>Management</b>
	<ul style="list-style-type: none"> <li>• Families dominate shareholding</li> <li>• Powers to issue shares with differential voting rights or to friendly persons;</li> <li>• Powers to limit maximum voting rights. Powers to override shareholders in company's interest.</li> </ul>
<b>Information Barriers</b>	<b>Accounting</b>
	<ul style="list-style-type: none"> <li>• Accounting statements not available, quality of information poor;</li> <li>• Low compliance with IFRS. Accounting practice biased to avoid tax liability, or conservative, hence accounting statements opaque;</li> </ul>
	<b>Shareholders Regulation</b>
	<ul style="list-style-type: none"> <li>• Antitrust regulations favour local acquires National champion's, rather than foreigners;</li> <li>• Takeover regulations used to block or delay foreign acquires;</li> <li>• Sectors declared of "strategic interest" and made off-limits for foreign acquires;</li> <li>• Regulatory procedures not known or unpredictable</li> </ul>
<b>Culture and Tradition</b>	<b>Attitude</b>
	<ul style="list-style-type: none"> <li>• "To sell is to admit failure" syndrome, dislike of hostile bids; dislike of institutional constraints on dividends or short-term profits. Xenophobia.</li> <li>• Unwillingness to disclose information</li> </ul>
	<b>Value System</b>
	<ul style="list-style-type: none"> <li>• High premium on trust and confidence in negotiations rather than formal contracts.</li> </ul>

**Source:** Adapted from "Creating value from mergers and acquisitions the challenges, second edition, sudi sudarsanam, Prentice Hall Financial Times (2010, 2<sup>o</sup> edition, p.231).



## Annex 3 - Strategic Development and Oversight

**Source:** F. Larcker, D. (2011). *Organizational Strategy, Business Models, and Risk Management*. Presented at the Center for Leadership Development & Research, Stanford Graduate School of Business. Retrieved from [file:///D:/0%20-%20SONY/Downloads/06.Business%20Model%20and%20Risk 1.pdf](file:///D:/0%20-%20SONY/Downloads/06.Business%20Model%20and%20Risk%201.pdf).

## **Annex 4 - Main reasons for Risk Management be important for firms**

**Source:** EMEIA, E. (2013). *Risk management for asset management* (p. 44). Retrieved from [http://www.ey.com/Publication/vwLUAssets/EY\\_Risk\\_Management\\_for\\_Asset\\_Management\\_Survey\\_2013/\\$FILE/EY-Risk-management-for-asset-management-survey-2013.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Risk_Management_for_Asset_Management_Survey_2013/$FILE/EY-Risk-management-for-asset-management-survey-2013.pdf).

## **Annex 5 - The main entities 'Functions, Assets & Risks Overview**

**Source:** (Devonshire-Ellis, Scott, & Woollard, 2011, p. 10).

## **Annex 6 - Flows' Comparison between Commissionaire entity, Toller Manufacturer entity and Full Fledged entity**

### **Commisionaire entity'Flows**

**Source:** Adapted from Devonshire-Ellis, C., Scott, A., & Woollard, S. (2011). Designing and Implementing a Transfer Pricing System. In *Designing and Implementing a Transfer Pricing System* (2° edition). Springer.